

Commonwealth of Kentucky
Before the Public Service Commission

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**PUBLIC SERVICE
COMMISSION**

In the Matter of:

NORTHERN KENTUCKY WATER DISTRICT)
APPLICATION FOR A GENERAL RATE INCREASE)
AND FOR FINANCING AND CONSTRUCTION)

Case No. 2003-00224

POST-HEARING BRIEF OF THE ATTORNEY GENERAL

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Post-hearing Brief.

The District seeks to increase its rates. While the formulas and calculations serving as the numerical basis for the District's request are important, the principles that guide the rate-making process are paramount. In this case, the District's request runs contrary to rate-making fundamentals in several regards.

First, the District has removed from the test year revenues associated with sales for resale to Boone County Water District and the City of Florence. The District has not removed corresponding variable operating expenses. Thus, the District has extracted one aspect of the test year without extracting its natural counterpart. The result is contrary to a basic principle of rate-making (consistency) and the Commission's Order in 2002-00105. Acceptance of this treatment would set a bad precedent.

Further, on this point, the District was requested during the pre-hearing discovery phase to show the calculations and assumptions to determine the operating expense savings associated with the removed sales of water. It did not provide the

information in its response. Accordingly, the Attorney General recommends the use of .40 cents per 1,000 gallons as the appropriate operating expense cost for the removed sales. The .40 cent per 1,000 gallon amount is consistent with the Commission's Order, and precedent on this point, in Case No. 2002-00015.

While the District - at the 11th hour - did submit a worksheet showing a calculation of variable costs with a lower per 1,000 gallon unit cost, the submission should be ignored. (In passing, the District should not be allowed to ignore a discovery request and then submit the evidence on the eve of the hearing to the prejudice of the party that sought the discovery.) The Commission may take administrative notice of the record of Case No. 2002-00015 including the evidentiary support for a .40 cent per 1,000 gallons variable cost amount. The District did not demonstrate that the "recalculation" was consistent with the calculation in Case No. 2002-00015, and it does not offer any compelling grounds to change the cost rate.

The District proposed a pro forma test year expense adjustment of \$39,543 to reflect the annualization of a 7.4% increase in Other Insurance Expenses. There was an error in this calculation. As per the District's response to Staff's first request, item 7(a), the adjustment should be \$32,152. To the extent that the District submits post-test period evidence regarding Other Insurance, the traditional known and measurable standard is adequate to determine the appropriate treatment.

The District's test year includes operating expenses in the amount of \$30,008 for water purchased from the City of Newport. This amount should be removed from the

test year. It is a non-recurring expense. It also relates to services that were rendered outside the test period.

The District concedes that its updated information regarding cost savings resulting from its bond refinancings are known and measurable. The more recently updated debt service costs numbers should be used for ratemaking purposes.

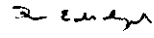
It appears that the District double-counted \$21,535 in test year revenues for Private Fire Hydrant services (AG's first request, item 16(a) and AG's second request, item 6). Test year revenues not subject to rate increase should be reduced by the double-count of \$21,535 which results in an increase in revenue requirement of \$21,535.

The District proposes that test year metered sales revenue be increased by \$138,787 to take into account the impact of construction projects funded by a \$10.455 million dollar bond issuance. The District anticipates 442 new connections from the projects, but it uses the assumption that only 40 percent of new connections will actually connect in the test period.

The bond issuance was not actually incurred by the District within the test year. Yet, the District reflects the full annualized debt service requirement for this issuance for ratemaking purposes. It is simply inconsistent for the District to fully reflect the new incremental debt service requirement – not actually incurred inside the test year – and not fully reflect the incremental revenues.

Respectfully submitted,

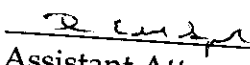
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Certificate of Service and Filing

Counsel certifies that an original and ten photocopies of this Post-hearing Brief were served and filed by hand delivery to Thomas M. Dorman, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, it was served by mailing a true and correct of the same, first class postage prepaid, to Ronald J. Barrow, Northern Kentucky Water District, P. O. Box 230, Cold Spring, Kentucky 41076; John N. Hughes, 124 West Todd Street, Frankfort, Kentucky 40601; and Charles H. Pangburn, III, Hemmer, Spoor, Pangburn, DeFrank & Kasson PLLC, 250 Grandview Drive, Suite 200, Fort Mitchell, Kentucky 41017, all on this 3rd day of March 2004.


Assistant Attorney General